HOUSING MARKET INFORMATION

HOUSING MARKET OUTLOOK
Calgary CMA

CANADA MORTGAGE AND HOUSING CORPORATION

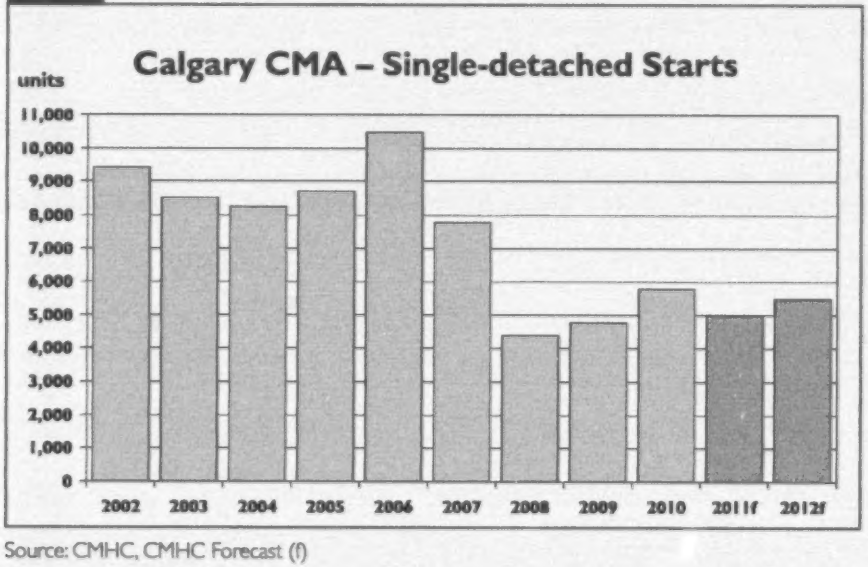
Date Released: Fall 2011

NEW HOME MARKET

Total housing starts forecast to increase in 2012

Following a 47 per cent gain last year, new home production in the Calgary Census Metropolitan Area (CMA) has been lower for most of 2011. Calgary builders have faced numerous headwinds tempering new construction this year, including competition from a well supplied resale market, elevated multi-family inventories, and the lagged impact from two successive years of job losses. After nine months, 6,235 housing units were started, down 16 per cent from 2010 when 7,437 units broke ground during the same period. By the end of 2011, total housing starts are expected to decline eight per cent to 8,500 units. Despite the lower level of activity experienced so

Figure 1



Source: CMHC, CMHC Forecast (f)

[1]The outlook is subject to uncertainty. Although point forecasts are presented in this publication, CMHC also presents forecast ranges and risks where appropriate. The forecasts and historical data included in this document reflect information available as of October 5, 2011, except for the addition of new information regarding the British Columbia and Nova Scotia shipbuilding contracts of October 19th, 2011.

[2]Multiple Listing Service ® (MLS ®) is a registered trademark owned by the Canadian Real Estate Association.

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far in 2011, new construction in 2012 is anticipated to see a lift as returning job creation, stronger net migration, and persistently low mortgage rates support the housing market. Total housing starts next year are forecast to increase 11 per cent to 9,400 units, with gains in both the single-detached and multi-family markets.

Demand for single-detached homes expected to improve

To the end of September, single-detached starts reached 3,767 units, representing a decrease of 20 per cent from a year earlier. Over the balance of the year, however, the year-over-year declines from 2010 are anticipated to shrink as the market competes with comparatively weaker numbers from the final quarter of last year. Single-detached starts are forecast to reach 5,000 units this year, down 14 per cent from 5,782 units in 2010. Demand for new housing is expected to improve in 2012 as employment and net migration continue their strong recovery and mortgage rates remain low. In addition, builders will encounter less competition from the resale market next year as listings moderate. Single-detached starts are forecast to increase 10 per cent from 5,000 units in 2011 to 5,500 units in 2012.

With the resale market well supplied in 2011, single-detached spec construction has been tempered to reduce the risk of any large inventory increases. In the first eight months of the year, the number of complete and unoccupied units averaged less than 400 per month compared to the 2001-2010 average of nearly 600 units. Although single-detached inventories have been relatively low, they started to move higher in the summer and reached 405 units in August, up 16.7 per cent from a year earlier. While competition from the resale market has diverted some sales away from the new home market this year, the expected gains in demand in 2012 will help ensure inventories remain relatively low.

The number of homes under construction has been relatively low, reflecting the lower level of demand toward the end of 2010 and in the beginning of 2011. There were 2,838 single-detached units under construction in August, a decline of 18.2 per cent from the previous year. Although the number of homes under construction had moved higher during the summer months, it was well below the 2001-2010 average of almost 3,850 units.

Modest growth for new home prices in 2012

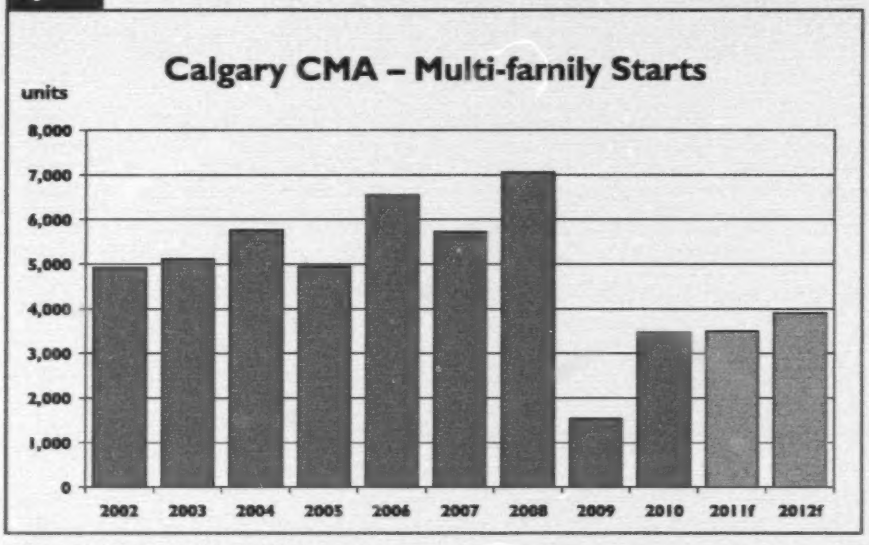
Throughout 2011, upward pressure on new home prices in the Calgary CMA has been relatively low. With the unemployment rate elevated and new construction activity moderating this year, this has taken some pressure off some construction costs. Meanwhile, builders have been competing with the generous selection of homes available to prospective buyers in the resale market. To the end of July, Statistics Canada's total New House Price Index (NHPI) for Calgary was on par with 2010. The NHPI measures the change in the price of new homes where the specifications remain the same between two consecutive periods. The index has been mainly supported by the price of land, as costs for constructing the house, such as labour and materials, has come down. This was not the case in 2010 when the rise in home prices was due to the house component. After the first seven months of 2011, the land component of the NHPI was up 2.7 per cent year-over-year, while the house component was down 1.6 per cent. For 2011, the NHPI is forecast to remain relatively flat, reporting only a small gain over the previous year. As economic conditions improve and demand for new homes rises, prices will experience a modest lift, increasing 1.4 per cent in 2012.

Although the growth in the NHPI has been subdued, the average absorbed price for a single-detached home has risen. Changes to the composition of single-detached homes sold have impacted the average absorbed price, whereas the NHPI compares homes with similar specifications. To the end of August, the average absorbed price was $544,587, up seven per cent from $508,267 in 2010. After eight months, the proportion of homes absorbed in the $650,000 and higher range, increased from 13.3 per cent in 2010 to 19.1 per cent in 2011. Conversely, absorptions for homes priced $449,999 and less decreased to 47.1 per cent from 59.1 per cent in 2010. This shift in sales has contributed to the up-tick in the average absorbed price this year, and will result in an annual increase of 5.2 per cent to $541,000. The average absorbed price is forecast to reach $548,000 in 2012, up 1.3 per cent from the previous year. Despite a higher volume of starts next year, builders will be reluctant to boost prices significantly with the resale market well supplied.

New apartment construction to support multi-family starts in 2012

Following a 126 per cent gain in 2010, housing starts in the multi-family market, which include semi-detached units, rows, and apartments, have moderated this year, with some

Figure 2



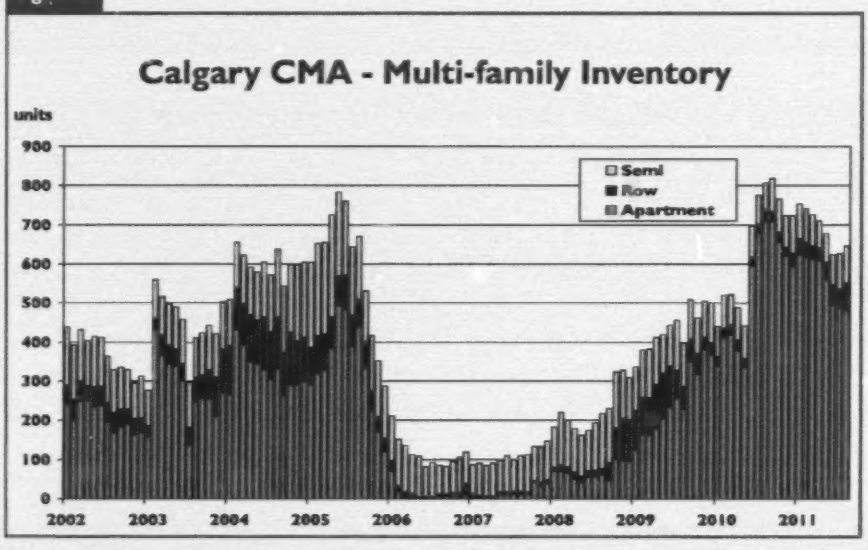
Source: CMHC, CMHC Forecast (f)

segments busier than others. To the end of September, multi-family starts declined 8.6 per cent from 2010 levels, amounting to 2,468 units. The declines were mostly experienced among apartments, where inventories, although moving lower, are still elevated. The apartment starts that have occurred were mostly for smaller buildings where inventories were more balanced. After nine months, semi-detached starts were slightly down from 2010, while row unit starts increased nearly five per cent. Although multi-family starts after nine months trailed behind 2010 levels, the gap is expected to close over the balance of the year as some larger projects start construction. In 2011, multi-family starts are forecast to total 3,500 units, up 0.6 per cent from 3,480 units in 2010. As demand improves with the economy and apartment inventories move lower, multi-family starts will rise 11.4 per cent to 3,900 units in 2012.

Multi-family builders have boosted efforts to draw down their inventories which have been elevated for a couple of years, especially in the apartment market. Complete and unabsorbed multi-family units decreased 20 per cent to 645 units in August 2011 from 807 units in 2010. This was due to a reduction in apartment inventories, as semi-detached and row units increased. Apartment inventories moved down from a record high of 710 units in August 2010 to 482 units in 2011, representing a decline of 32 per cent. Fewer apartment starts and more units absorbed at completion contributed to the decline. Most of the August inventory was in larger buildings with 100-or-more units and there were also a number of projects still on hold from 2009 and 2010. As apartment inventories continue to move lower and demand improves, Calgary will see an increase in the number of larger projects starting construction and projects on hold recommencing.

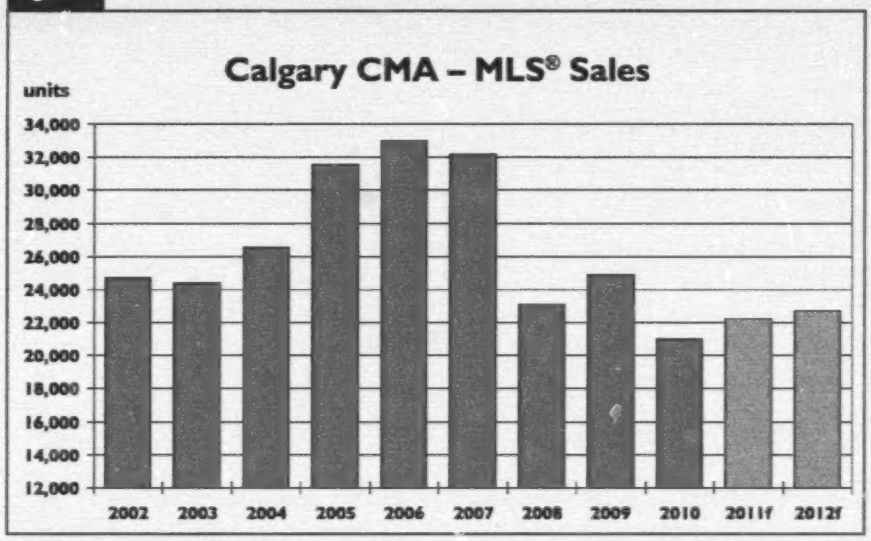
In August, there were a combined total of 1,524 semi-detached and row units under construction, up 15 per cent from 1,320 units in 2010. As not all units are pre-sold, some will be added to inventory at completion. While low, semi-detached inventories rose 36 per cent year-over-year to 94 units in August 2011. Meanwhile, row units in inventory increased 146 per cent to 69 units. Although semi-detached and row inventories have started to move higher in 2011, they are low compared to apartment inventory.

Figure 3



Source: CMHC

Figure 4



Source: CREA, CMHC Forecast (f)

RESALE MARKET

Employment growth and net migration to support housing demand in 2012

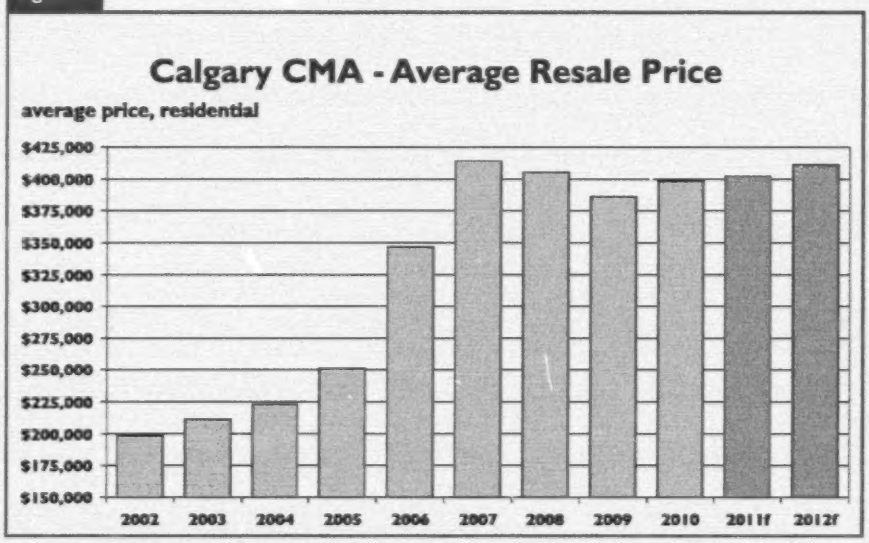
Many factors that support resale housing demand have become or remained favourable this year, including growth in full-time employment, low mortgage rates, and improved net migration. However, competing factors such as uncertainty in the global economy has kept some prospective buyers on the fence, and will continue to temper any large increases in sales. After eight months, MLS®[2] residential sales amounted to 16,107 units, up 5.5 per cent from 2010, a welcome turnaround compared to the first quarter when sales were down 4.6 per cent. Sales in 2011 are expected to end the year at 22,200 units, an increase of 5.7 per cent from 20,996 in 2010. Demand for housing is expected to further increase in 2012 as the economy expands, creating jobs and attracting more people to the region. MLS® residential sales in 2012 are anticipated to rise another 2.3 per cent to 22,700 units.

Despite recent year-over-year gains, the pace of sales this summer has been surpassed by the number of additional homes being listed on the market. New listings reported two consecutive months of year-over-year increases, rising 4.7 and 11.7 per cent in July and August, respectively. Despite the lift, new listings after the first eight months declined 7.4 per cent from 35,333 units in 2010 to 32,716 units in 2011. Active listings were also down from the same month a year earlier but were approaching 10,000 units in August and are trending upward. Prospective buyers continue to have an ample amount of choice, giving them an opportunity to shop around for the best product and negotiate price. After showing some strength in the beginning of the year, the sales-to-active listings ratio softened, dipping below 20 per cent in July and August. For the balance of 2011, the market is anticipated to remain in buyers' territory, limiting price growth.

Stronger price growth expected for 2012

With elevated listings relative to sales, average price growth has been modest in 2011. To the end of August, the average price was $404,096, up 0.9 per cent from $400,454 in 2010. This is a moderation in growth from the previous year when the average price

Figure 5

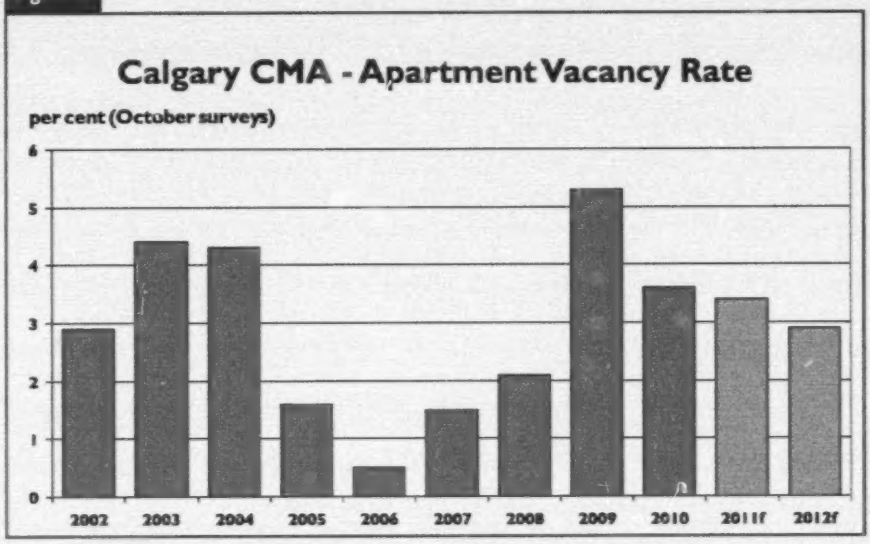


Source: CREA, CMHC Forecast (f)

increased 5.2 per cent. For the remainder of the year, upward pressure on home values is anticipated to be light. The average price for 2011 is forecast to be $402,000, up 0.8 per cent from 2010. As the supply in the resale market moves lower and conditions become more balanced, stronger price growth is expected next year. In 2012, the average price is anticipated to rise 2.2 per cent to $411,000.

Within the City of Calgary, there has been a shift in sales towards entry-level homes, especially for condominium units. First-time home buyers are taking advantage of low mortgage rates and some of the price adjustments in the condominium market. This is also having an impact on the average residential price reported each month. To the end of August, the proportion of condominiums that sold for less than $200,000 increased to 21.5 per cent in 2011, up from 15.4 per cent in 2010. The increase in sales for lower priced homes is less pronounced in the single-family market. The proportion of single-family homes that sold for less than $300,000 rose from 12.1 per cent in 2010 to 13.6 per cent in 2011.

Figure 6



Source: CMHC, CMHC Forecast (f)

RENTAL MARKET

Rental demand to benefit from stronger net migration

Rental demand in Calgary is expected to marginally improve in 2011, following a year when the vacancy rate declined 1.7 percentage points to 3.6 per cent in October 2010. Calgary's rental apartment vacancy rate is forecast to average 3.4 per cent in October 2011. Improvements in migration and employment growth are anticipated to sustain demand for rental accommodations. As economic activity gains ground in 2012, rental vacancies will moderate further. In October 2012, the vacancy rate is forecast to decline to 2.9 per cent.

Following two years of declines, landlords and property owners will have an opportunity to increase the average rent. Any changes to rental rates will be modest, however, as large increases may result in tenants looking elsewhere for space. The average two-bedroom rent will reach $1,070 per month in October 2011, up slightly from $1,069 in 2010. As vacancies move lower in 2012, fewer incentives will be needed to attract tenants. As such, the average two-bedroom rent will increase to $1,100 per month in October 2012, up $30 from 2011.

There have not been many rental projects started this year. To the end of August, only 49 purpose-built apartment rental units broke ground. However, the number of apartment rental units under construction has increased in August to 366 units compared to 340 units in 2010. As these units reach completion, they will represent additional supply and help satisfy demand. The secondary rental market will also give tenants further options and compete with units in the purpose-built rental market. Growth has been significant as the number of condominium rental units had increased by 59 per cent and 18 per cent year-over-year in 2009 and 2010, respectively. Despite the future supply of rental units under construction and competition from the secondary rental market, increased demand for purpose-built rental units will push vacancies lower over the forecast period.

ECONOMIC OVERVIEW

Calgary employment rebounds

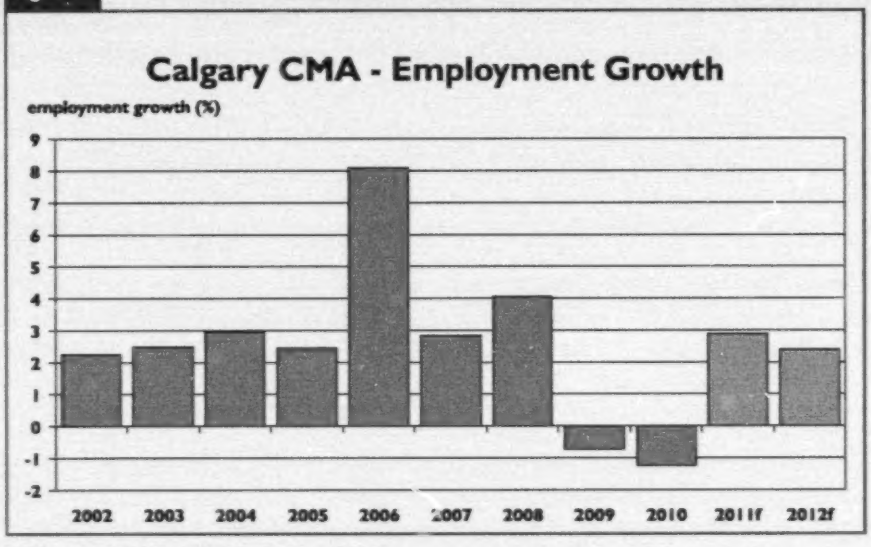
Employment in the Calgary CMA continues to improve, recovering the jobs that were lost during the economic slowdown. In August, average employment was up 2.5 per

cent from 2010 with nearly 740,000 people employed. The job market in Calgary has benefitted from the elevated price for oil, which is fuelling investments in the energy sector. This has also promoted activity in many other sectors in the economy. Average employment to the end of 2011 is forecast to increase 2.9 per cent, an impressive turnaround from the 1.2 per cent reduction last year. As the economy continues to expand, average employment in 2012 will rise another 2.4 per cent.

Full-time job growth has also returned in 2011, boding well for housing demand. This was an area of employment that had weakened in the last couple of years, declining 2.7 and 0.8 per cent in 2009 and 2010, respectively. Increased activity in many energy related industries has contributed to more full-time employment. Part-time employment is also up from 2010 levels. As companies demand more labour and unemployment rates decline, employers will look to transfer some part-time positions into full-time jobs.

The unemployment rate in 2011 has hovered around six per cent after being above seven per cent in 2010. Despite the growth in employment, the unemployment rate has been slow to decline following the reductions last year. More people have entered the labour force looking for work as job prospects have improved with the growing economy. As a result, the unemployment rate this year is not expected to stray too far away from current levels. For 2011, the unemployment rate is forecast to average 5.8 per cent, down from 6.8 per cent in 2010. With the labour market expected to further tighten, the unemployment rate will decline to 5.4 per cent in 2012.

Figure 7



Source: Statistics Canada, CMHC Forecast (f)

Average weekly earnings have reached a record in August of $1,002, up 2.3 per cent from the previous year. The increase in jobs created in some higher paying sectors, such as those related to energy, as well as a rise in full-time employment has contributed to the lift. This is a welcome change from August 2010 when average weekly earnings declined by 0.6 per cent. The gain in earnings will help prospective buyers move into home ownership and help existing home owners continue covering their monthly carrying costs.

Migration flows in 2011 are expected to rebound from 2010 levels when net migration in Calgary declined 50 per cent year-over-year. Led by activity in the energy sector, stronger economic conditions and increased employment opportunities will help attract people to the region. Net migration in Calgary is forecast to rise 39.6 per cent in 2011 to 15,500 migrants and another 9.7 per cent to 17,000 in 2012. The increase in migration will support demand in the new home, resale, and rental markets.

TRENDS IMPACTING HOUSING

Mortgage Rates

Recent announcements by the Bank of Canada have indicated that the Bank will be leaving the target overnight interest rate unchanged at 1.0 per cent for some time to come. The Bank has been noting that in light of slowing global economic momentum and heightened financial uncertainty, the need to withdraw monetary policy stimulus has diminished. The last increase in the overnight interest rate occurred on September 8, 2010 when the Bank of Canada raised it by 25 basis points. Mortgage rates, particularly short term mortgage rates and variable mortgage rates, are expected to remain at historically low levels.

According to CMHC's base case scenario, posted mortgage rates will remain relatively flat until late 2012.

For 2012, the one-year posted mortgage rate is expected to be in the 3.4 to 3.8 per cent range, while the five-year posted mortgage rate is forecast to be within 5.2 to 5.7 per cent.

Short term mortgage rates and variable mortgage rates are expected to remain at historically low levels. The outlook also assumes that mortgage rates will remain relatively flat until late in 2012. This will continue to support housing demand.

Forecast Summary Calgary CMA Fall 2011	2008	2009	2010	2011f	% chg	2012f	% chg
Resale Market							
MLS® Sales	23,136	24,880	20,996	22,200	5.7	22,700	2.3
MLS® New Listings	56,187	41,640	46,278	44,200	-4.5	43,700	-1.1
MLS® Average Price ($)	405,267	385,882	398,764	402,000	0.8	411,000	2.2
New Home Market							
Starts:							
Single-Detached	4,387	4,775	5,782	5,000	-13.5	5,500	10.0
Multiples	7,051	1,543	3,480	3,500	0.6	3,900	11.4
Starts - Total	11,438	6,318	9,262	8,500	-8.2	9,400	10.6
Average Price ($):							
Single-Detached	581,800	547,795	514,466	541,000	5.2	548,000	1.3
Median Price ($):							
Single-Detached	487,141	450,302	435,251	458,000	5.2	463,000	1.1
New Housing Price Index (% chg.)	0.7	-6.7	1.7	0.4	-	1.4	-
Rental Market							
October Vacancy Rate (%)	2.1	5.3	3.6	3.4	-	2.9	-
Two-bedroom Average Rent (October) ($)	1,148	1,099	1,069	1,070	-	1,100	-
Economic Overview							
Mortgage Rate (1 year) (%)	6.70	4.02	3.49	3.60	-	3.56	-
Mortgage Rate (5 year) (%)	7.06	5.63	5.61	5.42	-	5.43	-
Annual Employment Level	718,600	713,600	704,800	725,000	2.9	742,500	2.4
Employment Growth (%)	4.1	-0.7	-1.2	2.9	-	2.4	-
Unemployment rate (%)	3.5	6.7	6.8	5.8	-	5.4	-
Net Migration	21,952	22,136	11,100	15,500	39.6	17,000	9.7

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Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)
NOTE: Rental universe = Privately initiated rental apartment structures of three units and over
The forecasts included in this document are based on information available as of October 5, 2011.

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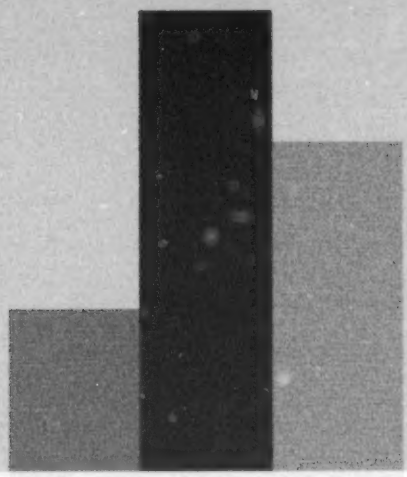

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